

LEGISLATIVE PROPERTY TAX STUDY COMMITTEE

November 7, 2007

Presentation to Local Economic Development Panel
City of Des Moines

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I. Key Issues in Local Economic Development

1. The challenge inherent in rebuilding older urban centers is that the cost of development is often greater than market forces by themselves will support.
2. Why is this true?
 - i. Market prices and rents may be insufficient to amortize the cost of development; and
 - ii. Cost of development is high due to many factors, including:
 1. land assemblage
 2. site prep cost (demolition)
 3. relocation expenses
 4. environmental remediation (Brownfields)
 5. structured parking
 6. vertical construction
 7. rehab/restoration of existing building
 - iii. “Greenfield” sites – typically farmland located on the fringe of urban areas – usually do not have these extraordinary development costs.
3. Despite the challenges, it is desirable to encourage development of older urban centers instead of “greenfields” to take advantage of existing infrastructure and other public and private investments in the area – this is “**SMART Growth**.”
4. Financial assistance is often necessary for economic development to occur in older urban centers. This “gap” financing is addressed at the local level in many ways including:
 - i. TIF
 - ii. Tax Abatement
 - iii. Infrastructure Assistance
 - iv. Reduced Land Price
 - v. Parking

The high cost of providing financing assistance within older urban centers can make projects infeasible because there are insufficient local resources.

5. Recent Des Moines Example: Wellmark
 - i. 500,000 SF building, 2000 space parking garage, \$194 million
 - ii. Challenges of the downtown site included:
 1. high land assemblage cost
 2. commercial relocations
 3. environmental contaminants
 4. inadequate existing street configuration

- 5. vertical construction
- 6. a competing “Greenfield” site in a metro suburb did not have these extraordinary costs
- iii. In order to preserve the jobs and the sizable tax base associated with this project, the City provided TIF funds to help offset extraordinary development costs. Polk County also provided financial support. IDOT approved a RISE grant, and IDED is considering use of investment tax credits.
- 6. TIF is the single most important tool available to cities to assist with economic development projects.

The City of Des Moines has operated under a long standing policy that requires a portion of all new TIF valuations be returned back to the local taxing jurisdictions (county, school, city, etc.). For the current fiscal year, 41% of all TIF generated tax dollars – or about \$16,549,000 – will be returned to the taxing jurisdictions.

II. Recommendations

- 1. Put in place a statewide policy that helps sustain and rebuild older urban centers
 - i. Assist by funding Brownfield remediation cost.
 - ii. Incent SMART growth policies.
 - iii. Expand use of Investment Tax Credits in older urban centers to encourage development that meets SMART growth goals, enhances Brownfield development and promotes adaptive reuse of vacant buildings.
 - iv. Utilize project generated State tax revenues to help cities pay for land assemblage, site preparation, public infrastructure improvements and parking cost required for a specific economic development project.
 - v. Allow cities a more flexible use of urban revitalization tax abatement where merited on a case by case basis.
 - vi. Assist with the adaptive reuse of older office and other commercial or industrial buildings which are structurally sound but in need of major overhaul.
- 2. Do not lessen a city’s ability to use TIF for projects that require financial assistance in order to be financially feasible or to pay for needed public infrastructure.
- 3. Incent close collaboration among the various public entities (State, County, City, Area Community College) that may be developing economic development proposals for the same project, with the objective of limiting the total public investment in a project to the least amount necessary for the project to move forward.
- 4. When an existing business is contemplating expansion, give preference in the award of State incentives to the retention of businesses in the current “home” city in lieu of the use of incentives to relocate the business to another city in the state.
- 5. Encourage the use of “Fair Play Agreements” among cities in a region which seek to:
 - i. Discourage the use of local economic development incentives to move an existing business to another city.
 - ii. Eliminate costly bidding wars among cities that result in excessive public investment in projects.